4:Grajdanzev--131 S-4 (no date) 1942 Formosans
116, 439, 652, 177.65 Japan
636.65

"It might seem more appropriate to examine Taiwan's public finances in a later chapter after a survey of the administrative machinery and its functions. However, one important consideration makes it necessary to consider them here. Our investigation of Taiwan's economy cannot be considered complete without an examination of its external trade, which plays a very important part in the life of the islanders. But the exceptionally heavy movement of goods from the island to Japan cannot be understood simply on the basis of trade or the structure of Taiwan's economy. Certain non-economic factors must be examined before a satisfactory explanation of the movement of commodities can be made. By far the most important among these factors is the government budget, which involves tremendous sums--judging by the standards of the islanders."

4:Grajdanzev--131-132 S-4 (no date) 1942 Formosans
116, 652, 177.65 Japan
636.65

"In 1937, . . . the gross value of production of the island was officially estimated at 890 million yen, while the gross revenue of the state for the same year was 203 million yen. If one takes into consideration the fact that the prevailing standards of life in Taiwan are oriental and that most of the families have little, if any, surplus, then a system which succeeds in squeezing out a gross revenue of 203 million yen for the state should be recognized as a remarkable achievement which the administrators of other colonial possessions might well envy. The fiscal system in Taiwan is a powerful instrument with which to extract from the population wealth which cannot be got by ordinary economic means. Of course, if the sums received in this way are applied for the benefit of the subjects themselves. a redistribution of income which fol-[132] lows may in certain cases be recognized as beneficial. If, for example, money which would otherwise be spent by the taxpayers on liquor is spent on the education of the taxpayers' children the results will be recognized as beneficial by most people. Thus we should know not only how much money is collected by the colonial administration, but also how it is spent."

4:Grajdanzev--132 S-4 (no date) 1942 Formosans
116, 127, 652, 177.65 Japan
636.65

"Before giving tables of the revenue and expenditures of the government-general, a few explanatory remarks should be made. (1) We give only net revenue (or expenditures) for the fiscal monopolies (1), railway communications, forests, hospitals, etc., because

1. In Taiwan fiscal monopolies include salt, camphor, opium, tobacco, and alcohol.

gross revenue figures give an exaggerated value to these items; (2) on the expenditure side we have changed the classification according to the purpose of the expenditures and all 'extraordinary' revenues and expenditures we combined with ordinary ones in order to give a more complete picture. The official heading, for example, 'grants to the sufferers from natural calamities' is misleading. One might assume that this represents aid rendered by the state to the local population, but on closer inspection one sees that a greater part of this item in the last year was made up of grants to the railways. Under the heading of 'building and repairs' (eizen hi) we find expenditures on airfields (more than one million yen) out of all proportion to the number of passengers carried (about 40 passengers per day), not including subsidies to airlines.

Unfortunately we cannot disentangle many other large items in view of the absence of information, and consequently, the amounts given represent a minimum for certain expenditures (war, police, 'subsidies' to business men, etc.) and if data were available they might be of much larger proportions."

4:Grajdanzev--132-133 S-4 (no date) 1942 Formosans
116, 631, 652, 177.65 Japan
636.65

"First of all let us compare the gross revenue of the government-general, provinces and municipalities, in order to secure a clear idea of their relative importance. [133]

Public Revenues for 1939 (Budget Estimates) (1)

1. Of course, there are probably cases of double counting in this table, e.g. a grant-in-aid from the government-general to provinces may appear in the budget of the government-general and also in the provincial budgets.

	In 1,000 yen	Percent of total
Government-general	208,602	74.4
Provinces	34,610	12.4
Municipalities	36,961	13.2

Thus three-fourths of all revenues pass through the hands of the government-general; compared to it the local administration is of trifling importance, and we may therefore concentrate our attention chiefly on the budget of the government-general."

4:Grajdanzev--137-138 S-4 (no date) 1942 Formosans-1-5
116, 465, 652, 177.65 Japan
636.65

The expenditures of the government-general may be classified as follows:

Expenditures of the Government-General (1,000 Yen) (1)

1. Source: Okurasho Nempo.

Purpose [a]	1935	1936 settled accounts	1937	1938 budget	1939 budget estimates
Government-general	1,758	1,939	2,289	2,232	2,416
Grants to local governments	14,704	14,985	15,733	16,171	16,648
Pensions	4,915	4,898	5,088	5,190	5,414
Public finance [b]	9,210	8,623	9,412	9,920	14,315
Police, court, prison [c]	4,474	4,547	5,437	5,534	5,342
General hygiene, hospitals [d]	716	572	833	978	1,204
Education	4,720	5,096	5,499	4,119	4,840
University [e]	295	322	349	3,236	3,797
Research and Investigations	2,630	2,570	3,055	3,186	3,929

4:Grajdanzev--137-138 116, 465, 652, 177.65 636.65

S-4 (no date) 1942

Formosans-2 Japan

	1935	1936 settled accounts	1937	1938 budget	1939 budget estimates
Railroads and roads (new construction)	7,136	8,537	8,475	9,839	9,588
Ports, rivers	9,113	9,625	10,669	9,120	13,327
Communications (new construction)	717	1,623	1,718	1,442	1,798
Help to sufferers in natural calamities	2,894	435	600	1,272	326
Development of State lands	204	193	335	445	497
Rice control	405	1,180	1,218	121	2,217
War	287	2,017	8,727	18,299	21,150
Meteorological stations [138]	73	94	278	507	890
Propaganda	146	155	427	1,228	1,957
of which for 'spiritual mobilization'			37	57	60

4:Grajdanzev--137-138 S-4 (no date) 1942 Formosans-3
116, 465, 652, 177.65
636.65 Japan

	1935	1936 settled accounts	1937	1938 budget	1939 budget estimates
'Expenses of establishments (shisetsu) in South China and the South Seas'	583	618	1,080	2,046	4,074
Secret funds	181	176	176	159	190
Encouragement of industry	3,969	5,707	5,873	9,058	11,468
Temples and shrines	709[f]	134	349	377	599
Total	69,839	74,046	87,620	104,479	125,986

a) The classification offered here is in most cases quite different from the official one; see below for explanations.

b) Chiefly debt service and the cost of tax collection.

c) Not including those paid from the budget of local governments.

d) These are net expenditures, receipts from the patients are deducted.

e) As will be shown later, the University serves chiefly the Japanese. It existed before 1938, but the expenditures were not disbursed from the budget of the government-general.

f) Includes expenditures on the memorial exhibition ('Forty years of Japanese rule').

To this it is useful to add the table of expenditures of provincial and local governments:

Expenditures of Provincial and Local Governments (1,000 Yen)

	1938 budget	1939 budget estimates
Cost of government, including police	8,289	7,630
Debt service	4,389	4,413
Education	13,177	14,144
Hospitals and hygiene	5,447	5,193
Encouragement of industry	5,172	6,488
Guards	757	1,110
Public Works	7,156	7,052
Repairs	6,796	4,361
Shrines	146	103
Other expenditures	19,827[a]	21,159[a]
Total	71,156[a]	71,653[a]

a) This includes several millions in cases of double counting

(grants from the provincial governments to local ones), but we have no means of tracing them."

4:Grajdanzev--140 [3] S-4 (no date) 1942 Formosans
116, 652, 657, 177.65 Japan
636.65

"Expenditures on the health and education of the population occupy a rather modest place in the budget of the government-general, and their part in total expenditures is falling, as the following figures show: (percentages of total expenditures)

	1935	1936	1937	1938	1939
Education[a]	6.8	6.9	6.3	4.5	3.8
Health	1.0	0.8	1.0	1.1	1.0

a) Expenditures on the University are not included here as before 1938 they were not included in the general budget, and we have no data on them.

However, it should be pointed out that the bulk of these expenditures passes through local budgets--14,144,000 yen on education and 5,193,000 on health in 1939."

4:Grajdanzev--140-141 S-4 (no date) 1942 Formosans
116, 648, 652, 659, 723, 177.65 Japan
636.65

"The large expenditures on railways and communications, on research, on investments in the South Seas, etc., show what importance the Japanese attach to the part of Taiwan in the schemes for an advance to the South. The money [141] collected in the Taiwan budget--almost 200 million yen--is thus mainly used, on the one hand, for the construction of the all-important base for Japanese penetration in the South Seas, on the other, for the purchase of Taiwanese products to be sent to Japan (1).

1. In the last few years the Japanese government has started the practice of direct contributions by the Taiwan Treasury to the Japan's Treasury. The sum appropriated in Taiwan's budget for 1941, for example, is 24.5 million yen."

4:Grajdanzev--159 S-4 (no date) 1942 Formosans
116. 457. 652. 661. 177.43 Japan
636.43

"For our purposes it is irrelevant whether all or only a few of the Japanese firms on the island make high profits; whether there are bankruptcies among them or not. We are concerned here with Japan's position in Taiwan as a whole. The existence of the Japanese firms on the island which make less than 10 percent on the invested capital, of the Japanese entrepreneurs who fail and the Japanese adventurists who return to Japan disappointed and disillusioned does not refute our thesis. It was shown in some detail above that beside investment profits as such there is derived from Taiwan the income of Japanese officials, and income originating in taxation, monopolies, fines, etc., most of this due in the last analysis to one source—Japan's colonial power. All this brings us to the conclusion that the active balance of Taiwan's trade represents mostly an unusually high degree of exploitation of the Chinese on the island by the Japanese government and industrialists.

To those who ask whether the colonies are profitable or not, it may be said that the ruling group of Japan knows that they are. They are able in Taiwan to support 300,000 Japanese on a much higher level than those Japanese would enjoy in Japan and in addition to extract profits of more than 100 million yen a year."

4:Grajdanzev--188 S-4 (no date) 1942 Formosans
116, 648, 652, 177.72 Japan
636.72

"All this [i.e. Japanese penetration to the South--analyst] required additional grants, and grants were forthcoming. In 1937 the Taiwan Government-General appropriated for the purposes of southern policy Y1, 061, 000; in 1938 Y1, 552, 000; in 1939 Y4, 073, 000; in 1940 Y5, 387, 000; in 1941 Y8, 002, 000. These figures may serve as an index of Japan's preparations for war in Southeast Asia. These sums were earmarked for work outside of Taiwan; but at the same time other amounts, enormous by Taiwan standards, were set apart from the Government-General budget for the construction of the base for southern advance in Taiwan. These expenditures from a minimum of 25 million yen in 1937 rose to a minimum of 50 million yen in 1941."

9: Yamasaki--234 [3] N-5 (1896-1897) 1900 Formosans
116, 439, 652

The total national income (Erträge) of Taiwan is estimated at over 40,000,000 yen per year. Of this, the total value of goods exported in 1896 amounted to 11,791,051 yen.

10: Schumacher--225 [12] T-1 (ca. 1896) 1898 Formosans
116, 175, 652

Ten months after completion of the conquest of Formosa, the Japanese colonial budget showed an income of sixteen million Mark from the island at a time when no capital whatsoever had been invested... There can be no doubt that within the period of ten months mentioned Japan extended its control quite arbitrarily; and the mere sum of 16 million Mark that was added to the Japanese treasury proves the inexhaustible wealth of Formosa.

631 substantiate this contention. For instance,
635 in the realm of finance, all taxes with the exception of customs duties, are collected by the provincial government. The Bank of
[652] Taiwan, a provincial bank, takes over all the functions of the central bank. It issues currency notes, supplies foreign exchange, and acts as the fiscal agent both of the national and provincial governments. With
871 regard to education, only the Taiwan National
631 University is under the supervision of the
635 Ministry of Education of the national government. All other schools in the province, including the College of Engineering and the Normal University are under the direct jurisdiction of the provincial government. Actually the different ministries in the national government have undergone so much consolidation after they had been moved to Formosa, that most of them are now maintaining only a skeleton staff.[4]

631 The relative importance of the Taiwan
635 provincial government does not, however, diminish the highly centralized authority of President Chiang Kai-shek, for the provincial

4. There are now 12,000 employees in the national government vs. 113,000 in the provincial government. Time, op. cit., p. 34.

less than 40 per cent; and 100 per cent postponement if the crop failure is over 50 per cent.[20]

Land Bonds in rice and sweet potatoes were issued by the Taiwan Provincial Government to pay for 70 per cent of the value of land to be acquired by the government for resale. Rice and sweet potato are the two principal farm products on Formosa, rice being raised in paddy fields and sweet potatoes on dry land. Rice Bonds are used to pay for the paddy fields and Sweet Potato Bonds to pay for dry land. It was estimated that 179,000 chia (429,000 acres) or 70 per cent of the tenanted land should be purchased by the government under the Land-to-the-Tiller Act, and so Land Bonds equivalent to 1,260,000 metric tons of rice and 440,000 metric tons of sweet potatoes was issued. The amortization of principal and the payment of interest are entrusted to the Taiwan Land Bank. The principal and interest of Rice Bonds are paid in rice, while those of Sweet Potato Bonds are paid in cash by conversion at the market price at the time of maturity of the installment.[21] Based on commodities, the value of Land Bonds is not subject to fluctuation

20. Ibid., Article XXVI.
21. Ibid., Article XI.

45:Stanford U, S-4, 5 1956 AD1 Formosa
~~AD1~~ AD1

due to changes in the value of the currency. The other 30 per cent of the purchase price is paid by the transfer of the stocks of government-owned enterprises. The stocks of the Taiwan Cement Company, the Taiwan Paper and Pulp Corporation, the Taiwan Agriculture and Forestry Corporation, and the Taiwan Industrial and Mining Corporation were to be transferred to the landowners as part payment for land purchased.

The Land-to-the-Tiller Program was launched on February 1, 1953. A limit of one year was set for its completion. By the end of 1953, a total of 143,568 chia (344,104 acres) had been purchased by the government from 104,049 landlords and resold to 195,823 tenants and part-tenants. A total of Land Bonds equivalent to 889,123 metric tons of rice and 315,476 metric tons of sweet potatoes were actually issued. The Taiwan Cement Company, the Taiwan Paper and Pulp Corporation, and several plants belonging to the Agricultural and Forestry Corporation and to the Industrial and Mining Corporation have been sold to the landlords. The total value of government industrial stocks paid to landowners as

423 662 compensation amounts to NT$659,774,640.[22]

D. Urban Land Reform

423 In addition to the reform program for rural land, the Chinese Nationalist Government on August 26, 1954, issued regulations governing the equalization of urban land ownership. The aim of the new law is to curtail speculation by preventing the concentration of ownership and to tax the unearned profit from the rising price of urban land. The main features of the law are restriction of the acreage of land an individual or a body corporate may possess, and the levy of progressive taxes over the value of the land and its increment.

Under the new law a private landowner may not own more than one-tenth of a hectare

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22. This cash equivalent is obtained by converting the 30 per cent payment in rice and sweet potatoes according to the average market price of these two items in December 1952. To prevent the concentration of the stock of any one enterprise in the hands of large landowners, it is provided in the Rules Governing the Transfer of Public Enterprises to Public Ownership that the 30 per cent compensation to landlords would be paid seventy per cent with the government stocks of the Cement Corporation and the Paper and Pulp Corporation, and thirty per cent with those of two other corporations.

652 Due to inflation government expenditures grew enormously. Despite the increase in tax receipts, budget deficits occurred each year. Until 1953, the Chinese fiscal year corresponded to the calender year. In 1953 a change was made in the budget law to begin the fiscal year on July 1; thus fiscal year 1954 last from July 1, 1954 to June 30, 1955. Because the 1953 budget expired on December 31, 1953, a special budget for the first six months of 1954 was prepared. According to the figures released by the Chinese government, the amount of annual deficit of the central government for the years 1950 and 1954 was as follows. *

	Total Expenditure (NT$ million)	Deficit (NT$ million)	Percentage of Deficit to total expenditure
1950	1,296	410	31.6
1951	1,432	349	24.4
1952	1,918	174	9.1
1953	2,362	29	1.2
1954**	1,603	138	8.6

* Statistical Abstract of the Republic of China 1955. The figures were the actual settlement figures.

** Special budget from January to June 30, 1954. The budget of the central government for the fiscal year 1954 is not yet available.

652. The deficit appears to be smaller than it actually was because the figures listed above only represent the receipts from bond issue and bank credit. A substantial portion of the national deficit has been met by the sale of gold and foreign exchange reserves, by disposal of government-owned property, and by applying funds derived from the sales proceeds of import articles financed by American aid (Counterpart Fund). Since government holdings of gold and foreign exchanges have been almost depleted, "Nationalist China ... [is] faced today with tremendous difficulties in balancing its in-the-red budget since U.S. aid funds no longer can be used for regular government expenditures."[9]

The largest item of government expenditure is the cost of maintaining military establishments. Other expenditures have been reduced to a minimum. At the end of 1954, excluding the military, only 11,585 persons were on the payrolls of the central government, less than 3 per cent of the total number of the civil functionaries[10] on the Mainland in June

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9. Taipei dispatch, United Press, Sept. 23, 1955.

10. The total number of civil service functionaries of the central government on June 1947 was 472,788. Statistical Yearbook of the Republic of China 1948.

• 65) 1947. Despite efforts of retrenchment, defense expenditures still constitutes 80 per cent of the total.[11] Since a strong military force is indispensable in Formosa today, further reduction of defense outlay might be dangerous. The tax burden of the people is already extremely heavy. The national income in Formosa in 1954 was estimated at NT$23,545 million, and per capita income at NT$2,502.[12] The total amount of government taxes and monopoly profits in 1954 was NT$4,040 million, and the per capita tax burden was NT$429... Thus every Formosan is paying 17 per cent of his meager income as taxes to the government. The incidence of taxation is the heavier since all the taxes are nearly indirect taxes on the essential of life.

To raise the revenue of the central government, perhaps greater attention should be devoted to an increase in the surplus of the government enterprises. Production of government enterprises exceeded 75 per cent of the gross production of the island, and 85 per cent of the exports passed through government hands. In addition, the Chinese government

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11. Address by Mr. Hsü Po-yüan, Minister of Finance, Nov. 7, 1955 before the Central Committee of Kuomintang. Pan Asia News Alliance, Taipei, dispatch, Nov. 7, 1955.

12. The population in 1954 was estimated by the statistical department of the Taiwan Provincial Government at 9,409,050.

45:Stanford U. S-4, 5 1956 AD1 Formosa
~~AD1~~ AD1

owns 92 per cent of the capital of all banks in Formosa. Under Japanese rule, surplus from public undertakings was the primary source of government income. In 1954, the national government of China derived nothing from the giant state corporations,[13] and the provincial government received only a modest NT$80 million from those under its control. According to observers, "Taiwan's industry is still characterized by a combination of relative youth on the one hand and of the use of antiquated method on the other. There are numerous evidences of a lack of effective planning and over-all integration."[14] "The size of staff and worker personnel in public enterprises is generally reported to be larger than can be profitably used."[15] With proper supervision and greater efficiency in operation, public enterprises can be made to yield a greater revenue to the central government, helping it to reduce its budgetary deficits.

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13. The Taiwan Sugar Corporation alone is worth over US$120,000,000 and its annual production is valued at US$100,000,000.

14. Arthur F. Raper and others, Urban and Industrial Taiwan - Crowded and Resourceful, Taipei, Sept. 1954, p. 10.

15. Ibid., p. 63.

662 The provincial government and the local governments do not face the same serious financial difficulties confronting the central government. The provincial government is able to balance its budget each year. Its principal revenues are the land tax and the profits from monopolies. According to its published statement,[16] the total revenue of the provincial government for the fiscal year ending June 30, 1955 was NT$1,899 million. Rectipts from taxes were NT$691 million and profits from wine and tobacco monopolies were NT$820 million. Revenue from these two items amounted to 80 per cent of the total. The largest items of expenditure were for education and economic reconstruction. Educational and cultural expenditure totaled NT$180 million and expenditure for economic reconstruction amounted to NT$134 million. These two items accounted for 43 per cent of the total expenditure. The population of the province is increasing and new schools are needed; education expenses will occupy a larger proportion of provincial expenditure in future years.

The local governments have their own budgets. The total revenue of hsien and

16. Central Daily News, Taipei, Dec. 16, 1955, p. 6.

652 municipal governments in the fiscal year ending June 30, 1955 amounted to NT$957 million.[17] Sixty-three per cent of the revenue is derived from local taxes and 26 per cent represents subsidies from central and provincial governments. Forty-two per cent of the expenditure is for educational purposes and 15 per cent for the maintenance of the local police force. For the current year there will be a serious drain on the local resources because a large number of recruits have been inducted into the army. The local governments are responsible for the support of the needy family of draftees. It is estimated that a sum of NT$80 million will be needed for this purpose.

On the town and rural district level, the budget for the fiscal year ending June 30, 1955 was NT$355 million. Fifgy-nine per cent of the revenue comes from tax receipts and 23 per cent from subsidies by the provincial government. Forty-one per cent of the expenditure goes to administration expenses, 20 per cent to the improvement of communications, 9 per cent to education, and the remainder to public health.

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17. Report to Mr. Ch'en Han-p'ing, Provincial Commissioner of Finance, to the Provincial Assembly on Dec. 22, 1955 at the 4th meeting of the Second Session.

45:Stanford U. S-4, 5 1956 AD1 Formosa
~~AD1~~ AD1

652 Before the enforcement of self-government, local governments shared the same budgets with the provincial government. With independent budgets, the governments on the local levels enjoy a greater freedom in managing their own affairs. The local assemblies are endowed with the power to raise revenue for specific purposes by special assessments. Chinese society has been traditionally patriarchal; government has always been in the hands of the few. Self-government in Formosa is the first democratic experiment in the Chinese nation. The ability to achieve sound financial management is the crucial text of the success of this experiment. A careful survey of the administration of local affairs in the next few years will be well worthwhile.

45:Stanford U. S-4, 5 1956 AD1 Formosa
~~AD1~~ AD1

Annex "A," Subparagraph 3d,
Economic Background

BANKING AND CURRENCY

652 436 Modern banking, as it is known in the West, came into being on Formosa during the Japanese occupation. The first bank on Formosa was a branch of a Japanese commercial bank, the Churitsu Bank, which was opened in Keelung during the first year of Japanese rule (1895). The Bank of Taiwan was established in 1899. It had the exclusive right to issue currency and was designated as the fiscal agent of the colonial government. It also did commercial banking, accepting deposits and extending loans, and dealt in foreign exchange. The notes issued between 1899 and 1904 were convertible into silver or were exchangeable at par for Japanese yen. In 1904 notes convertible into gold were issued. On notes which were not secured by gold or silver reserves, the Bank of Taiwan had to pay a tax of 5 per cent per annum. This rate was reduced to 3 per cent per annum in 1935. With 453 agricultural and industrial development of the island, banks prospered. The following banks were operating in Formosa at the end of 1944:

	Number of Branches (including head office)
453 Bank of Taiwan	14
Taiwan Commercial and Industrial Bank	37
Chang Hua Bank	28
Hua Nan Bank	4
Taiwan Savings Bank	20
Cooperative Bank	45
Sanwa Bank*	3
Hypothec Bank*	5

* Headquarters in Japan.

The Bank of Taiwan had 35 branches outside Formosa, and the Hua Nan Bank had five branches outside Formosa. In addition to the above there were also one trust company, four mutual-credit associations, and approximately 500 branches of co-operative and farmers' associations. During the first six months of 1945, to escape allied aerial bombings, banks were dispersed and the number of branch banks was increased.

652 After the war the Nationalist Government took over all the banking institutions on Formosa. Shares owned by the Japanese government and by Japanese firms and individuals were

652 confiscated. The Bank of Taiwan continued to be the banker for the Provincial Government and for other banks. When the central government of China moved to Formosa, the head offices of the four Chinese national banks also moved to the island. The Central Bank of China (1) delegated its functions -- the issuance of notes, custody of the treasury, role as fiscal agent for the government -- to the Bank of Taiwan. The Bank of China (2) limited its activities to the supervision of its overseas branches.[1] The Bank of Communications (3) and the Farmers Bank of China (4) have suspended operations. Only the Central Trust of China engages in importing and exporting transactions and acts as the purchasing agent for the government.

The Japanese-controlled banks taken over by the Chinese authorities underwent reorganization. The Taiwan Savings Bank and the local branches of the Sanwa Bank were merged into the Bank of Taiwan. The branches of the Hypothec Bank of Japan, which once provided long-term credit for agriculture, were reorganized into the Land Bank. The Land

1. The Bank of China has branch offices in New York, Saigon, Havana, Bangkok, Phnom Penh, Osaka, Tokyo, and Sydney.

652 Bank took control of a considerable amount of farm land once owned by the Japanese Taiwan Development Company, which also make a practice of extending long-term loans to farmers. The Co-operative Bank was renamed the Taiwan Provincial Co-operative Treasury. It continues to co-ordinate and provide financial assistance to the co-operatives and the farmers' associations on the island. The Taiwan Provincial Government is also in complete control of the three commercial banks since it now owns the shares which belonged to the Japanese. The Taiwan Commercial and Industrial Bank has been renamed the First Commercial Bank.

Provincial Banks
(June 1955)

	No. of Offices*	Shares Owned (per cent)		
		Taiwan Provincial Gov.	Bank of Taiwan	Private
Bank of Taiwan	39	100	-	-
Land Bank	30	100	-	-
Co-operative Treasury	23	60	-	40#
First Commercial Bank	65	54	13	33

45:Stanford U. S-4, 5 1956 AD1 Formosa
~~AD1~~ AD1

652 Hua Nan Bank	43	4	49	43
Chang Hua Bank	58	47	-	53

* including head office and branches

\# owned by co-operatives and farmers' associations

After reorganization, new directors and officials were chosen for all the provincial banks. The majority of directors, including the chairman of the board and managing directors, are native Formosans with the exception of those of the Bank of Taiwan. The Bank of Taiwan, nominally a provincial bank in practice, is controlled directly by the Central Government. The chairman of the board of directors is named or appointed with the approval of President Chiang Kai-shek. Its policy is dictated by the Ministry of Finance, but the provincial governor also has the right to supervise the operation of the bank. This dual control is a source of friction between the national and provincial governments. The Land Bank and the Co-operative Treasury are co-ordinated by the provincial government. The Land Bank has been instrumental in the implementation of the land reform program in Formosa.

All commercial banks are required to deposit a reserve fund at the Bank of Taiwan.

662. Effective May 1, 1953, reserve required is 13 per cent of demand deposits and 8 per cent of fixed deposits. The government supervises the credit policy of the commercial bank through the Bank of Taiwan. Except for the general supervision of the Department of Finance of the provincial government, the administration and operation of the commercial banks are left to their respective boards of directors. For the lower income group there are private money lenders and credit unions (hui).[2] They do very little business because the rate of interest charged is exorbitant.

2. The credit union is a form of mutual-aid organization. For detailed description of its operation, see Arthur F. Raper and others, Urban and Industrial Taiwan - Crowded and Resourceful, Taipei, 1954, pp. 184-85.

436
652 Formosa came under Chinese control in November 1945. The same monetary unit was continued in circulation but was renamed the Taipi, or Taiwan dollar (T$). At the end of 1945, the total amount of currency in circulation amounted to T$2,311 millions. The dislocation of the credit system, the loss of the Japanese market, the acute shortage of consumer goods, and the urgent need to repair war damages led to the continuous expansion of note issues and bank credit. In three years, currency in circulation increased to T$142,041 million as of December 31, 1948.[4] In 1949, the Chinese National Government was moved to Formosa. The island was faced not only with an influx of refugees requiring consumer goods, but the need to finance a national army and a government administration. Inflation mounted. On June 14, 1949, currency notes reached the astronomical figure of T$527,000 million, and "cash orders," a substitute for currency issued by the Bank of Taiwan amounted to T$1,214,000 million. The total currency and substitute-currency in circulation was T$1,741,000 million. (A U.S. dollar was worth T$235,000.) Prices rocketed. At the last moment a financial crisis was averted by currency reform. On June 15, 1949 new currency was introduced, called Hsin Taipi or the New Taiwan dollar (NT$).

4. Financial Report of the Bank of Taiwan for 1948.

436 The old currency was converted to New
662 Taiwan dollars at T$40,000 to NT$1. The outstanding currency notes and cash orders were reduced to NT$44 million. A ceiling for the new note issue was set at NT$200 million, equivalent to U.S. $40 million at the official rate of NT$5 to US$1. The new note issue was backed by 100 per cent reserves of gold and foreign exchange.

Because of huge military disbursements and the need for the rehabilitation of government enterprises, the Chinese government was compelled to borrow heavily from the Bank of Taiwan. At the end of 1949, the total note issue reached NT$198 million, approaching the nominal maximum. During the following years the law was altered several times to permit the issue of "extra limit currency." (Extra limit currency may be secured by commercial bills of acceptance, warehouse receipts, and loans against packing or packed commodities.) The note issue steadily expanded; at the end of 1954 the total issue reached NT$1,043 million, five times the maximum limit. Despite the efforts of the government to avoid further inflation, general price levels increased with the increase in the amount of notes in circulation.

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Note Issue*

End of Year	Total Amount of Note Issue (NT$million)#	Indices of Note Issue (June 15, 1949 = 100)	Loans and Advances to Public Treasury[x] (NT$million)	Wholesale Prices Indices in Taipei (June 30, 1949 = 100)
1949	198	452	15	183
1950	248	569	497	345
1951	390	895	684	526
1952	589	1,350	681	544
1953	773	1,773	828	631
1954	1,043	2,390	1,138	616
1955[y]	1,164	2,650	not yet available	

* Statistical Abstract of the Republic of China 1955, pp. 164-67.

\# Amount of subsidiary currency is not included in these figures. At end of 1954 subsidiary notes in circulation amounted to NT$175 million.

x Granted to both the central and provincial governments.

y Chung-yang Jih-pao [Central Daily News], Taipei, Jan. 3, 1956, p. 3.

45;Stanford U, S-4, 5 1956 ADI Formosa
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459 It should be noted that price levels have risen 700 per cent and the amount of notes issued has increased 2,600 per cent. Similarly foreign exchange has not depreciated to the same extent as the increase of money in circulation. The official exchange rate[5] for US dollars has increased from NT$5 to NT$24.78; the market rate[6] for US dollars has increased from NT$7.82 on December 31, 1949 to NT$37.50 on November 6, 1955.

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662 The pressure of inflation on the economy of Formosa has been alleviated by a number of factors. The enormous growth in population and industrial expansion tend to absorb a part of the increased money supply. The government controls an abundant reserve of rice, wheat flour, and other essential goods, which may be used to stabilize prices. The depreciation of the external value of the currency has been partially offset by aid from the United States and the personal expenditure of United States advisory personnel in Formosa.

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5. The 1955 figure includes the bank exchange rate of NT$15.65 plus 20 per cent defense tax (NT$3.13) plus the certificate price of NT$6.00.

6. United Press dispatch, Taipei, Nov. 6, 1955.

458 However, these favorable factors may be
652 of no help if the trend toward inflation continues unabated. The principal cause of continued inflation is government borrowing. Advances to the public treasury at the end of 1954 amounted to NT$1,138 million; the total note issue was only NT$1,043 million. Unless the Chinese government is able to dra[illegible]lly reduce its huge budgetary deficit by raising more revenue and cutting its expenditures, it will be difficult to control inflation, and unless the dangers of inflation are avoided, it will be impossible to achieve financial stability.

82:Steiner 3-4 (no date)1981

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647 ment employees was reduced to 81,006, while the percentage of indigenous citizens in government service had risen to 65.46. A more significant change, perhaps, is in the increase of indigenous personnel in positions of responsibility. Among the first-class officials, local personnel has increased from 0.92 per cent under the Japanese to 17.45 per cent under the Nationalists. During the similar period, the second-class officials of indigenous origin rose from 1.29 per cent to 25.02 per cent.

563 Of 113,900 aborigines in Taiwan, 91,-
657 070 of them live in the central mountainous region. Since 1946 they have been exempted from tax payments. Redistricted into a number of villages and subvillages, they have been developing local self-government through village assemblies. There are at present 159 free primary schools among them, educating some 20,000 of their children. In addition, 924 graduates have been awarded government scholarships to enter secondary schools. Among them are also 140 public health clinics serviced by 321 medical people.[18]

Finance

652 The people of Taiwan suffered much when their currency was linked with that of mainland China. From one Taiwan dollar for thirty Chinese dollars (*fapi*) in 1946, the rate climbed to T$1,835 for one Cainese "Gold Yuan" in August 1948.[19] By the time the Gold Yuan collapsed several months later, there was little purchasing power left in the Taiwan dollar worth salvaging. A fresh start was made in June 1949 when the

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nel figures on which this analysis is based, see *Taiwan Today*, cited note 11 *supra*, pp. 30–31.

[18] For figures in this paragraph, see *Taiwan Reconstruction**, cited note 12 *supra*, Vol. 1, pp. 20–21.

[19] For a general description of Taiwan provincial finance, see *Taiwan Reconstruction**, pp. 33–77; also cf. *Taiwan Today*, cited note 11 *supra*, pp. 44–76.

F. 216 (2)]

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FORMOSA 401

652 National Taiwan Dollar was introduced,[20] replacing the old currency at a ratio of 1:40,000. Fixed at an official exchange rate of four to one United States dollar, the new issue amounted to NT$200,000,000.[21] Authorized by the Nationalist government and handled by the Taiwan Provincial Bank, its 100 per cent reserve was provided by the former out of its Central Bank reserve fund[22] brought over from the mainland.

Implementing the currency reform were a number of deflationary measures. By selling government-owned commodities, confiscated Japanese properties, and bonds, and conducting lotteries, a total of NT$25,740,000 was siphoned from circulation.[23] Between June 1949 when the reform was instituted and October 1950, the note issue, including subsidiary and fiduciary issues, rose 824.95 per cent, while the wholesale commodity index price of Taipeh rose 330.36 per cent.[24]

Since its transfer to Taiwan, the Nationalist government's expenditures have been reduced considerably. On its administrative staff today are but a few 701 thousands of essential personnel. The maintenance of its armed forces is the largest item.[25]

652 655 Nationalist financial requirements are met by the sale of government-owned properties, customs receipts, revenues

[20] See Currency Reform Ordinance of the Taiwan Provincial Government*, June 15, 1949.

[21] *Ibid.* The issue was subsequently increased another NT$50,000,000. The present exchange rate fluctuates around eight Taiwan dollars for one United States dollar.

[22] About US$200,000,000 in August 1948. See *China Handbook 1950*, p. 479.

[23] The figure is based on Bank of Taiwan statistics as of June 1950.

[24] *Taiwan Today*, cited note 11 *supra*, p. 71; also cf. *Taiwan Reconstruction**, cited note 12 *supra*, pp. 63–64.

[25] In his Administrative Report of October 3, 1950, Premier Chen Cheng disclosed that some 150,000 men were discharged during the

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32:Steiner S-4 (no date) 1951
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[655]

from salt monopoly, postal service, and profits from such assorted enterprises as telecommunication; air transport; navigation; petroleum; aluminum, gold, coal, and copper mining; and steel works. Where additional funds are needed, the government dips into its estimated US$200,000,000 gold reserve which it brought over from the mainland along with assets of various government corporations.

Presently, the Taiwan Provincial Government operates under the provisions of a "special budgetary system." [36] A considerable part of its expenditures, normally national, are paid from the provincial treasury. The estimated revenue for 1950, for instance, amounted to NT$300,825,888.[37] Of that amount, approximately 31.91 per cent came from government monopolies; 21.54 per cent from sales of government-owned assets consisting mostly of confiscated Japanese properties; 19.51 per cent from such taxes as income, inheritance, excise, and land; and the 27.04 per cent from provincial enterprises. Of the expenditures, 23.71 per cent were for education and culture; 23.4 per cent for subsidies; 21.18 per cent for reconstruction; 7.65 per cent for administering reconstruction; 6.06 per cent for defense and security; 4.11 per cent for financial administration; 3.63 per cent for civil administration; 3.53 per cent for public health; and the rest for social relief and civil service pensions.[38]

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first six months of 1950 "to match the nation's financial resources." Of the remaining units, exact figure not given, the Premier reported that "their pay has been increased and farms have been opened for their own benefits."

[36] *Taiwan Reconstruction*, cited note 12 *supra*, Vol. 1, p. 33.

[37] *Taiwan Today*, cited note 11 *supra*, p. 60. Actual revenue for 1950 was NT$319,968,297.

[38] For a breakdown of budgetary figures, see *Taiwan Today*, pp. 59–68; also *Taiwan Reconstruction*, pp. 33–36.

[p. 217(B)]

88:Steiner S-4 (no date) 1951
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Thus far, the provincial budgets have been balanced in recent years. How long the improved financial outlook will continue depends on a number of factors. Undue strain on provincial resources has been avoided by using assets brought over from the mainland and by selling government properties. Indirect benefits derived from the Economic Co-operation Administration program, which for the fiscal year 1951 amount to approximately US$40,000,000, help to arrest the inflationary trend of commodities.[79]

Living Conditions

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In the absence of comprehensive statistics establishing the trends of per capita income in Taiwan,[80] the Nationalist policy of improving the people's livelihood may be reflected by the measures which have been taken regarding agriculture, industry, food, and other government-operated productive services.

Agriculture

[162] 427

Farming population in Taiwan is estimated to be around 3,800,000. Of this number, 70 per cent are under contract as tenant farmers. Prior to the enforcement of the rent reduction program in April 1949, which set a maximum rental ceiling of 37.5 per cent, the average rental ranged from 46 to 62.5 per cent of the total yield.

In administering the rent reduction program, the provincial authorities fix a standard yield per *chia* (less than 2.5

[79] "Economic Administration Program in Taiwan," an address by Raymond T. Moyer, chief, ECA, China Mission, before the Chinese Association for the United Nations, March 17, 1951.

[80] Premier Chen Cheng states that per capita income in Taiwan has risen 30 per cent since the termination of Japanese rule (Broadcast of the Voice of Free China, Taipeh, May 12, 1951). Also estimated income in Taiwan for 1950 is NT$1,276,000,000 and for 1951

[P. 218 (A)]

52:Steiner S-4 (no date)1951
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625 wine, tobacco, and salt in violation of government monopoly, and violations of the 37.5 rent reduction program.

Conclusions

643 In describing the Nationalist government policies, 1949–51, the writer has sought to ascertain their nature and contents by recounting a chain of events which set the political pattern in contemporary Taiwan and by a survey of what has taken place since. From them may be drawn the following tentative conclusions:

1. Generalissimo Chiang Kai-shek and his supporters have been exercising a dominant role in National Government policies, 1949–51.

665 2. While there are three known political parties active in national politics in Taiwan, the Kuomintang, as presently constituted, is the ruling party.

631 3. The political framework in Taiwan may be described as one of over-all political control by the Nationalist government, centralized management by the provincial government, and local self-government, still in its preliminary stage, at the municipal and county levels.

652 4. The National Taiwan currency has exhibited a degree of stability which compares favorably with that in most postwar countries having suffered from war devastation.

5. Nationalist government assets and reserve, sale of government properties, and ECA assistance are contributing factors in balancing the provincial budgets in recent years.

427 6. The 37.5 rent reduction program has contributed towards rural well-being, along with the projects sponsored by the Joint Committee on Rural Rehabilitation.

433 7. There has been an upward trend in agricultural and industrial produc-

[p. 222 (B)]

36: Rowe S-4 (no date) 1955 AF1 China AF1
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C F 423 427

tenants there has been a rent reform program, which went into effect in 1949 and set a maximum rental ceiling of 37.5 percent of the total yield (average rental had theretofore ranged from 46 to 62.5 percent of the total yield). The income of tenant farmers has, in consequence of the program, risen by an average of 30 percent. The reform legislation provides that where the main crop yields are less than 20 percent of normal the tenant shall not be required to pay any rent at all. It also gives the farmer security of tenure (landlords may no longer refuse to renew contracts in order to re-rent on more favorable terms), and it restricts landlords' right to dispossess tenants. By 1951, 97.54 percent of the tenant farmers had completed new contracts under the new law, and the landlord problem had been brought, for the most part, under control. The price of land has steadily declined, which, of course, enables more and more tenant farmers to buy land to own. The rent reduction program has been carried out in cooperation with a Chinese-American organization, the Joint Commission on Rural Reconstruction, which is responsible for a program of general agricultural improvement: the construction of irrigation dams and canals, reclamation projects, the making available of better seeds and fertilizers, animal disease control, the organization of farmer associations and rural cooperatives, and rural health measures.

C F 241 654

By the end of the period 1950–1951, the use of US-financed fertilizer had brought rice production to the highest peak in the history of Taiwan. In exchange for much-needed foreign currency, twenty-two thousand, five hundred eighty-seven metric tons of Taiwan's surplus were exported to Japan and South Korea. Other foods basic to local consumption were also above peak prewar production levels. Sweet potatoes were up 20 percent, wheat 165 percent, and peanuts 89 percent. Considering the handicaps under which the government started, the economy of Taiwan is now surprisingly stable, largely because of the increased agricultural productivity reflected in the foregoing statistics.

C F 652

Economic Reform

In 1949, to meet the economic crisis precipitated by the soaring inflation of the Chinese National currency, to which the Taiwan dollar was then linked, a fresh start was made by introducing a new currency, linked to the US dollar and backed by gold bullion brought over from the mainland. At the same time, a series of deflationary measures were enlisted. The government's expenditures, for example, were curtailed by reducing its personnel and cutting back certain of its activities; at the same time, its resources were increased by means of a new luxury tax (based upon ownership of property, including cars and refrigerators), a defense tax, the floating of bonds, and the sale of government assets. The program, as a whole, had the effect of encouraging private enterprise, so that the usual sources of revenue (customs receipts, returns from the salt monopoly, the postal services, and assorted government enterprises in fields like telecommunication, air transport, navigation, petroleum, aluminum, gold, coal, copper, and steel) became more productive.

C F [377] [249] 433

Industrial Recovery

In industry, Taiwan's return to prosperity has been extremely rapid. At the time of Japan's surrender, the annual coal production had dropped to 776,000 metric tons (as compared to peak production of 1,182,635 in 1941); electric power had fallen off to 32,646 KW (as compared to the peak load of 152,355 KW in 1943); the production of sugar (the chief product for export) had declined to 86,073 metric tons (as compared to 1,418,000 metric tons before WW II), that of cement to 78,000 metric tons (as compared to peak production